

# STATEMENT



## In Opposition to Michigan House Bill 5223 March 6, 2018

**Position: The Pharmaceutical Research and Manufacturers of America (PhRMA) strongly opposes HB 5223. PhRMA believes that access and affordability to medicines are important, but discussions about transparency of drug prices will not help patients. This bill requires manufacturers to report confidential and proprietary information to the State that would be publicly released, and creates increased administrative and financial burdens on the state.**

The biopharmaceutical industry is committed to working across the entire drug supply chain to help access and affordability issues. PhRMA is a voluntary, nonprofit organization representing the country's leading biopharmaceutical research, which are devoted to discovering and developing medicines that enable patients to live longer, healthier, and more productive lives. PhRMA is committed to advancing public policies in the United State that support innovative medical research, yield progress for patients today, and provide hop for the treatments and cures of tomorrow.

**The manufacturer information required to be disclosed by this legislation will not help patients.**

Pharmaceutical manufacturers already publicly disclose a wide range of information, including information about costs and sales. The Federal Trade Commission has acknowledged that disclosure of competitively sensitive information could undermine the beneficial market forces within the industry.

Publishing detailed drug by drug information will not provide consumers with any useful information for making informed decisions about treatment options. This legislation also ignores the significant rebates and discounts that manufacturers provide to insurers and pharmacy benefit managers (PBMs). In fact, when considering these rebates and discounts, recent research studies show that drug spending growth is lower than overall health spending growth. In 2016, the price spent on drugs increased by just 1.3 percent.<sup>1</sup> Further, too often the negotiated savings do not flow to the patient when purchasing a medicine. Statistically, more than half, 52 percent, of commercially insured patients' out-of-pocket spending for brand medicines is based on the full list price. This means that while insurers and PBMs benefit from the negotiated rebates and discounts, patients do not.

**HB 5223 myopically targets drug spending in ways that may have long-term, harmful effects on innovation and the development of new, life-saving therapies through seeking to cap drug prices and potentially restricting access to certain medicines.**

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<sup>1</sup> <https://www.cms.gov/Newsroom/MediaReleaseDatabase/Press-releases/2017-Press-releases-items/2017-12-06.html>

Specifically, this bill creates the Prescription Drug Cost Advisory Commission to review prescription drug costs and value with the goal of controlling drug prices and the entire drug supply system. Further, HB 5223 requires onerous disclosure of pricing information that will not benefit patients and may jeopardize the competitive market that works to lower drug prices as additional products come to market and patents expire. All of this could threaten the positive effect that the biopharmaceutical industry has on Michigan's economy.

**HB 5223 is misguided. After a spike in drug prices in 2014, the competitive market, which includes competition among brand medicines, the emergence of generic medicines into the market, and the negotiating strength of large PBMs has benefited from billions of dollars in annual rebates that work to limit the growth of drug prices.**

In 2016, only 5.1 percent of Michigan's Medicaid budget was spent on prescription medicines, including both brand and generic.<sup>2</sup> Pharmaceutical manufacturers paid approximately \$1.1 billion in brand and generic rebates (mandatory and supplemental) on Michigan's Medicaid drug utilization alone. This represents a 55 percent discount returned to the state and federal government.

The idea that prescription prices continue to grow at a high rate is false. PBMs and the Centers for Medicare and Medicaid Services (CMS) are reporting that growth in pharmaceutical costs is slowing. In fact, in January of 2018, Express Scripts, one of the top three largest PBMs in the country, announced drug spending increases were held to 1.5 percent in 2017, which was down from 3.8 percent in 2016. CVS Health has also reported limiting prescription drug costs, claiming that it held growth down to 3.2 percent in 2016, which dropped from 5 percent in 2015 and 11.8 percent in 2014.<sup>3</sup> Further, CMS has reported that retail prescription drug spending growth slowed to 1.3 percent in 2016, compared to an overall increase of health spending of 4.3 percent.<sup>4</sup>

PHRMA recognizes the access challenges faced by many Michiganders with serious illnesses, but believes this bill will not help patients afford their medicines. We stand ready to work with the Michigan legislature and other stakeholders to develop market-based solutions that help patients. For the reasons outlined in this statement, we strongly oppose HB 5223.

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<sup>22</sup> The Menges Group analysis of FY2016 CMS 64 reports and State Drug Utilization data files. Brand and generic expenditures total are net of rebates. Data used were predominately derived from CMS 64 reports. Brand and generic prescription drug costs in each state were derived through a set of tabulations performed by The Menges Group. Pre-rebate expenditures were tabulated using FY 2016 CMS State and Drug Utilization data files and CMS brand/generic indicators for each National Drug Code. Rebate information was obtained from CMS-64 reports. Brand/generic share of rebated estimated by The Menges group. Post-rebate expenditures derived through Menges Group tabulations using above information.

<sup>3</sup> [www.phrma.com/cost](http://www.phrma.com/cost)

<sup>4</sup> <https://www.cms.gov/Newsroom/MediaReleaseDatabase/Press-releases/2017-Press-releases-items/2017-12-06.html>



# Michigan House Health Policy Hearing on Drug Price Transparency

**PhARMA**  
RESEARCH • PROGRESS • HOPE

Saamil Pandya  
Senior Director- Policy & Research

March 14, 2018



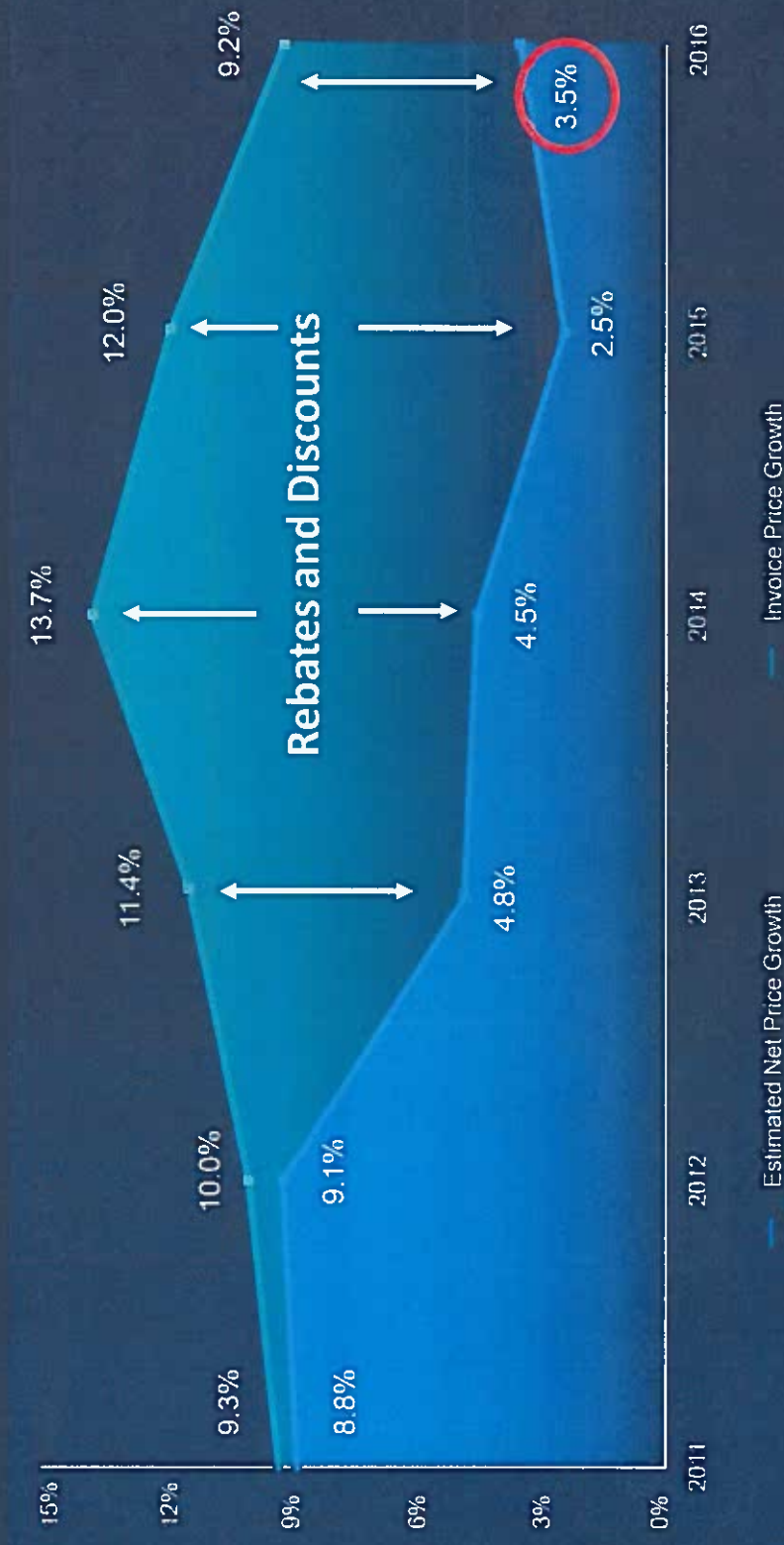
# Developing New Treatments and Cures IS A COMPLEX AND RISKY UNDERTAKING

On average, it takes more than  
10 years and \$2.6B to research and develop a new medicine.\*



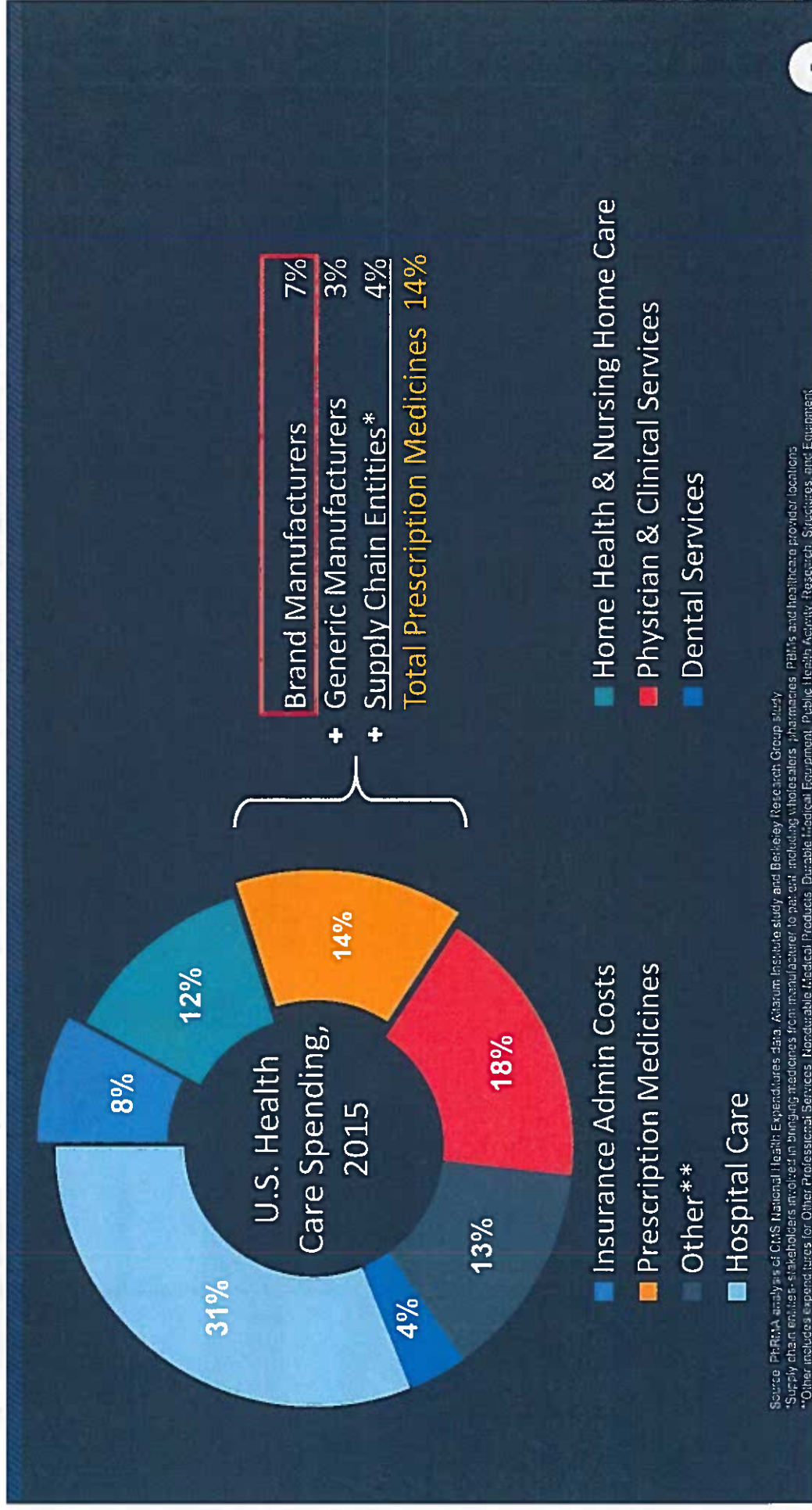
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In fact, after discounts and rebates, brand medicine prices grew just 3.5% in 2016

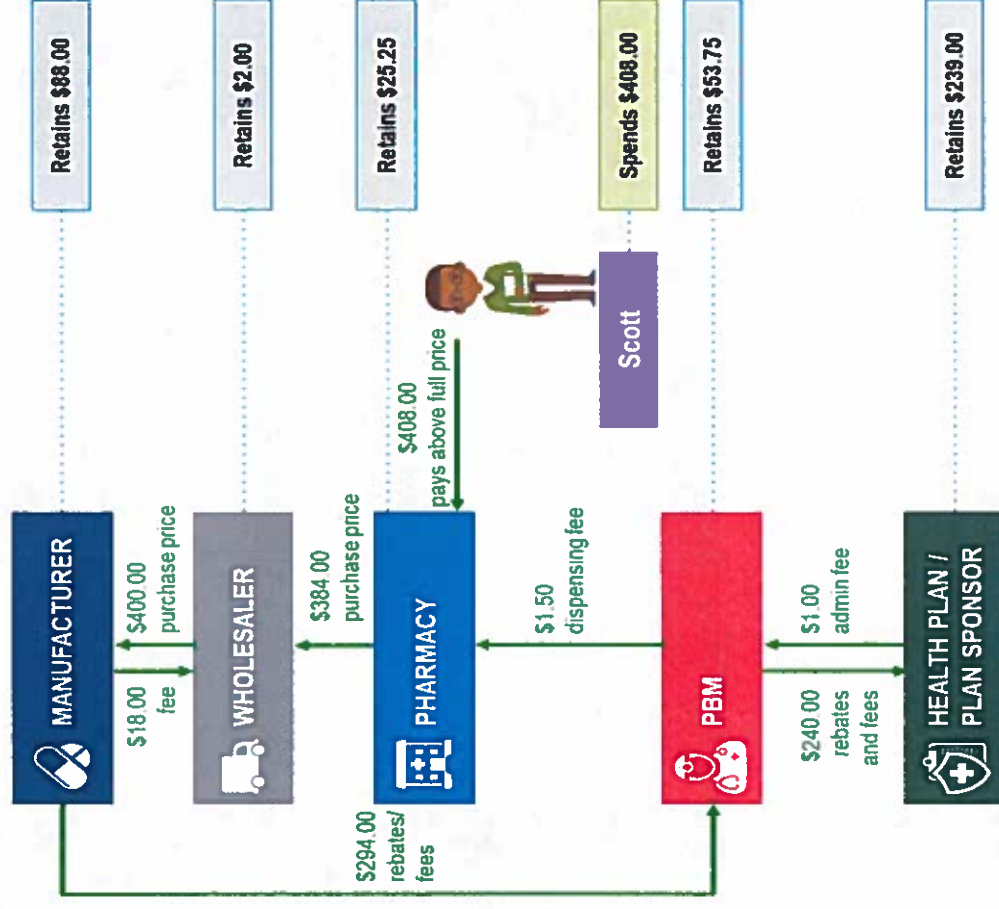




Spending on retail and physician-administered medicines continues to represent just 14% of total health care spending



# Flow of Payment for a \$400 Insulin



- Since Scott hasn't reached his deductible, his insurer does not cover any of his costs
- Scott pays more than the list price of his medicine
- The PBM and health plan pay nothing, and actually earn \$292.75 on this prescription
- Due to industry consolidation, the PBM, health plan, and even the pharmacy are often part of the same parent company

## Assumptions:

- \$400 list price per prescription
- 65% base rebate
- Patient pays full undiscounted price of medicine



# Key Takeaways

- Total prescription medicine spending is expected to remain constant at about 14% of total health care expenditures from 2015 through 2025 even as many new treatments reach patients
- Less than half of all net spending on prescription medicines – or about 7% of total health care spending – goes to brand biopharmaceutical manufacturers.
- Federal government actuaries report retail prescription medicine spending grew just 1.3% in 2016, less than one-third the rate of overall health spending growth
- After accounting for discounts and rebates, the average net price for brand medicines increased just 3.5% in 2016
- In 2016, biopharmaceutical companies paid out \$127 billion in rebates and discounts to government and private payers, but these rebates and discounts were typically not shared with patients at the pharmacy counter
- 90% of all prescriptions filled in 2016 were generics, up from 80% in 2011. IMS projects that \$140 billion of U.S brand sales will face competition from generics of biosimilars between 2017 and 2021. There is no similar type of cost containment for other health care services

